

**HOUGHTON-PORTAGE TOWNSHIP
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

June 30, 2008



Houghton-Portage Township Schools



HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

JUNE 30, 2008

ADMINISTRATION

Superintendent	William Polkinghorne
High School Principal	Kathryn Simila
Middle School Principal	James Luoma
Elementary Principal	Doreen Klingbeil

BOARD OF EDUCATION

President	Dan Crane
Vice President	Philip Foltz
Treasurer	Nels Christopherson
Secretary	Brad Baltensperger
Trustee	Mary Pachmayer
Trustee	Mike Reynolds
Trustee	Bob Wheeler

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS	
<u>District-wide Financial Statements:</u>	
Statement of Net Assets	14
Statement of Activities	15
<u>Fund Financial Statements:</u>	
Governmental Funds:	
Balance Sheet	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Fiduciary Funds - Statement of Fiduciary Net Assets	18
NOTES TO FINANCIAL STATEMENTS	19
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION	
Budgetary Comparison Schedule - General Fund	35
OTHER SUPPLEMENTAL FINANCIAL INFORMATION	
<u>Major Governmental Funds</u>	
General Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	37
Debt Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	40
<u>Non-Major Governmental Funds</u>	
Combining Balance Sheet	41
Combining Statements of Revenues, Expenditures and Changes in Fund Balances	42
School Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	43
Athletic Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	44
Capital Projects - Schedules of Revenues, Expenditures, and Changes in Fund Balances	45
Community Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	46
<u>Fiduciary Funds</u>	
Trust and Agency Fund - Statement of Changes in Assets and Liabilities	47
Scholarship Fund - Statement of Changes in Assets and Liabilities	48

TABLE OF CONTENTS
(Continued)

Page

FEDERAL AWARDS PROGRAMS:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	50
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	52
Schedule of Expenditures of Federal Awards	54
Schedule of Federal Financial Assistance Provided to Sub-Recipients	55
Notes to the Schedule of Expenditures of Federal Awards	56
Schedule of Findings and Questioned Costs	57

INDEPENDENT AUDITOR'S REPORT

Board of Education
Houghton-Portage Township School District
Houghton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of and for the year then ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton-Portage Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2008 on our consideration of Houghton-Portage Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houghton-Portage Township School District's basic financial statements. The additional information on pages 37 to 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Houghton-Portage Township School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 4, 2008

Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2008

This section of Houghton-Portage Township Schools annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

The state foundation allowance increased \$119 per pupil, which is approximately a 1.67% increase.

Substitute teachers were contracted out in order to reduce operating costs.

One administrative position was eliminated during the year.

On March 1, 2008, the school district refunded the callable portion of their 1998 refunding bonds. The amount refunded was \$7.51 million in principal maturities with an average interest rate of 4.98%. The true interest rate on the 2008 refunding bonds was 3.877%. This resulted in a net present value savings of \$570,816, or 7.601% of the bonds refunded.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

Overview of the Financial Statements - Continued

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the Debt Service Fund, School Food Service, Community Service and Athletic funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Service Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management's Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt Service, Capital Projects, School Food Service, Community Service and Athletic Funds.

Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2008

Summary of Net Assets

	2008	2007
Assets		
Current and other assets	\$ 2,401,297	\$ 2,124,628
Restricted cash and investments	48,677	11,002
Capital assets - Net of accumulated depreciation	14,116,480	14,658,399
Total Assets	<u>\$ 16,566,454</u>	<u>\$ 16,794,029</u>
Liabilities		
Current liabilities	\$ 4,549,121	\$ 4,034,419
Long-term liabilities	14,646,583	15,615,368
Total Liabilities	<u>19,195,704</u>	<u>19,649,787</u>
Net Assets		
Invested in capital assets - net of related debt	(2,942,865)	(3,116,584)
Restricted for debt service	144,681	129,797
Reserved	50,217	
Designated	2,625	
Unreserved	116,092	131,029
Total net assets	<u>(2,629,250)</u>	<u>(2,855,758)</u>
Total Liabilities and Net Assets	<u>\$ 16,566,454</u>	<u>\$ 16,794,029</u>

Results of Operations in Governmental Activities

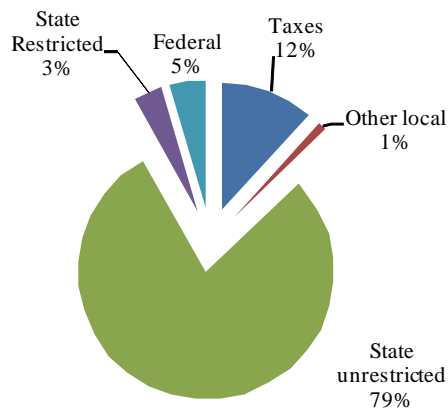
	2008	2007
Program Revenue:		
Charges for services	\$ 397,222	\$ 428,037
Grants and contributions	985,355	1,016,466
General Revenue:		
Property taxes	2,688,294	2,599,126
State foundation allowance	7,717,764	7,749,629
Transfers	793	63,677
Special item - proceeds from refinancing debt	7,759,865	0
Special item - loss on sale of assets	(4,032)	885
Other	232,959	215,654
Total Revenue	<u>19,778,220</u>	<u>12,073,474</u>
Functions/Program Expenses		
Instruction	7,013,526	7,184,885
Support services	2,982,908	3,236,651
School service	556,425	525,767
Athletics	314,905	324,164
Community services	69,426	42,641
Interest on long-term debt	835,200	878,482
Other debt	7,779,322	9,267
Total Expenses	<u>19,551,712</u>	<u>12,201,857</u>
Change in Net Assets	226,508	(128,383)
Net Assets - Beginning	<u>(2,855,758)</u>	<u>(2,727,375)</u>
Net Assets - Ending	<u>\$ (2,629,250)</u>	<u>\$ (2,855,758)</u>

**Houghton-Portage Township School District
Management's Discussion and Analysis**

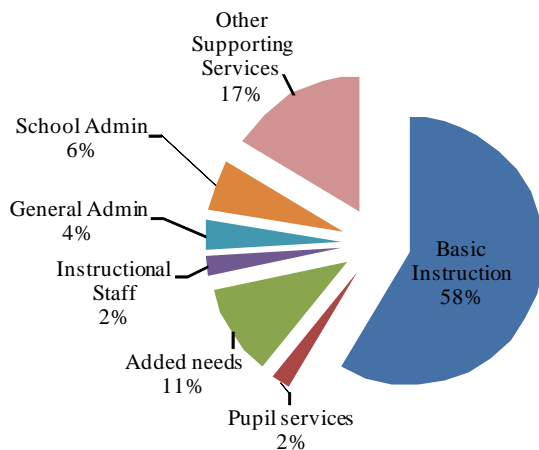
June 30, 2008

The following charts highlight the District's General Fund activities:

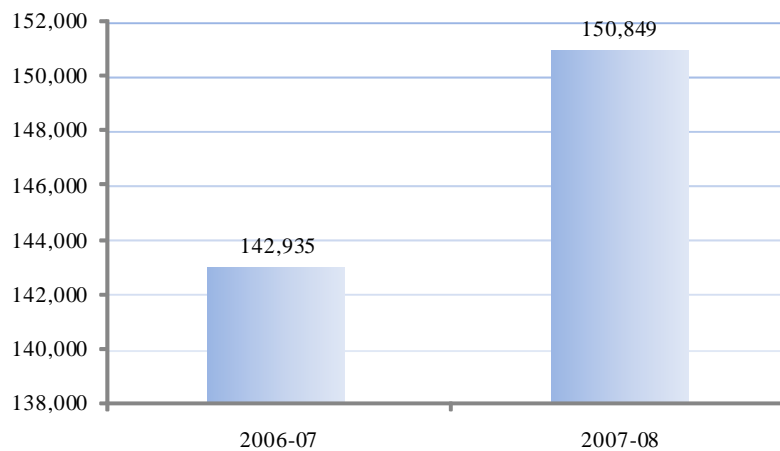
Revenues



Expenditures



Fund Balance



Houghton-Portage Township School District**Management's Discussion and Analysis****June 30, 2008****Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 9,765,840	\$ 9,909,167	\$ (143,327)
Expenditures/Transfers	\$ 9,757,926	\$ 10,302,376	\$ (544,450)
Fund Balance	\$ 150,849	\$ 142,935	\$ 7,914
Debt Retirement Fund:			
Revenues/Transfers	\$ 9,339,324	\$ 1,503,029	\$ 7,836,295
Expenditures/Transfers	\$ 9,295,160	\$ 1,451,866	\$ 7,843,294
Fund Balance	\$ 144,681	\$ 100,517	\$ 44,164
School Service Fund:			
Revenues/Transfers	\$ 560,319	\$ 572,529	\$ (12,210)
Expenditures/Transfers	\$ 556,425	\$ 525,767	\$ 30,658
Fund Balance	\$ 83,589	\$ 79,695	\$ 3,894
Athletic Fund:			
Revenues/Transfers	\$ 288,397	\$ 313,593	\$ (25,196)
Expenditures/Transfers	\$ 303,359	\$ 312,618	\$ (9,259)
Fund Balance	\$ 2,236	\$ 17,198	\$ (14,962)
Community Service Fund:			
Revenues/Transfers	\$ 60,872	\$ 32,927	\$ 27,945
Expenditures/Transfers	\$ 58,363	\$ 29,910	\$ 28,453
Fund Balance	\$ 27,587	\$ 25,078	\$ 2,509
Capital Projects Fund:			
Revenues/Transfers	\$ 15,410	\$ 15,148	\$ 262
Expenditures/Transfers	\$ 0	\$ 40,132	\$ (40,132)
Fund Balance	\$ 16,430	\$ 1,020	\$ 15,410

General Fund - The majority of decline in revenue from previous year is due to the dissolution of a special education pool and a reduction in Federal Title monies for an approximate total decrease of \$135,000. In addition, earnings on investment and contributions decreased slightly from previous year.

There was a reduction in expenses from previous year due to a decreases in salaries of \$170,000, benefits of \$187,000, and capital outlay of \$94,000. In addition, prior year expenses included the final payment on the computer lease at an estimated figure of \$75,000.

Debt Service Fund - The major change from prior year is due to the refunding of the 1998 bond.

Food Service Fund - Revenue decreased from prior year because ala carte sales were lower. An increase in wages, benefits, and food is the reason for increased expenditures from prior year.

Athletic Fund - Revenues and expenditures have decreased from prior year because prior year included post season tournament action.

Community Services Fund - The increase in revenues and expenditures is due to the expansion of the Kindergarten Child Care Program over the previous year.

Capital Projects Fund - There was a significant decrease in expenditures from previous year because there were no projects funded in the current year.

Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2008

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2008, the original budget was adopted on June 19, 2007. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances.

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 9,787,163	\$ 9,746,661	\$ 9,755,137	\$ 8,476	0.1%
Expenditures					
Instruction	\$ 6,590,169	\$ 6,613,774	\$ 6,554,593	\$ 59,181	0.9%
Supporting services	3,005,913	2,962,973	2,909,360	53,613	1.8%
Community services	8,402	10,402	11,063	(661)	-6.0%
Total expenditures	\$ 9,604,484	\$ 9,587,149	\$ 9,475,016	\$ 112,133	1.2%
Other financing sources (uses)	\$ (210,500)	\$ (215,500)	\$ (272,207)	\$ 56,707	-20.8%

The original budget was revised mainly for tax revenues. Information on LDFA captured taxes is not known at the time of original budget adoption.

The variance between original budget and final budget for instruction expenditures is due to an increase in dual enrollment and vocational education tuition. Actual expenses decreased from final budget because alternative education tuition decreased, there was unpaid teacher leaves of absence due to maternity leaves, and there was a change in health insurance during the year. In addition, the final budget included three retirees at the maximum payout. In actuality, the three retirees were not eligible for the maximum included in the final budget.

The variance between the original budget and the final budget for supporting services is due to budget reductions for student help, benefits, and electricity. Actual expenses decreased from final budget because there were reductions in the contracted social worker, travel and workshops, library books, and an administrative position.

Actual expenses for other financing sources was more than what was budgeted due to the dissolution of the Special Education Pool which helped finance special education programs.

Capital Assets and Debt Administration

Capital Assets: The district's purchases this year consisted of a duplicator, copier, and boiler. The District also disposed of two duplicators. Total purchases totaled \$20,824 and the disposals totaled \$22,145 resulting in a net decrease of \$1,321.

The board's philosophy is to pay cash for capital outlay items whenever possible, in order to avoid the additional cost for interest associated with borrowing. The one major exception is for computer purchases. The district replaces computers all at once every 4 or 5 years in order to avoid problems with dissimilar technology components. This would result in too large of an expenditure in any one year, so the computers are financed in order to spread the cost over several years' budgets.

The District maintains a fleet of 15 buses, 4 of which are used as spares. In our experience a bus has a useable life of 10 to 12 years. It is a goal of the Board to replace one bus per year in order to maintain a safe fleet.

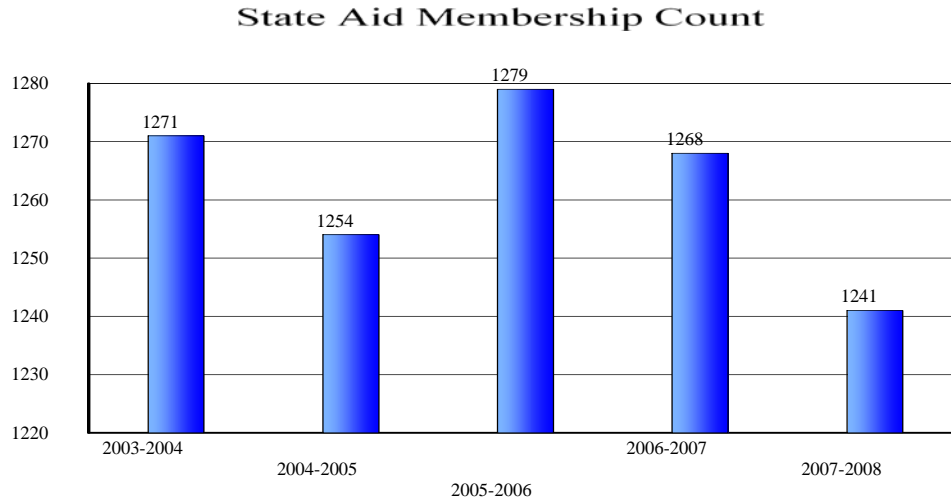
Additional information on the District's capital assets can be found on page 25 of this report.

Long-term Debt: At the end of the current fiscal year, the District's total debt was \$17,171,102. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$709,499.

Additional information on the District's long-term debt can be found on pages 27 through 31 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

The graph depicts a 2.1% decrease in the number of students enrolled from the previous year, using the State Aid Membership Count.



State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$7,316 for the 2008-09 school year. This represents an increase of \$112.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Houghton-Portage Township School District.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**STATEMENT OF NET ASSETS****June 30, 2008****ASSETS:****CURRENT ASSETS:**

Cash and cash equivalents	\$	94,820
Investments		406,718
Taxes receivable		193,351
Accounts receivable		7,789
Due from student groups		109,348
Due from other governmental units		1,531,561
Prepaid expenses		5,597
Inventories		52,113

TOTAL CURRENT ASSETS		2,401,297
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NONCURRENT ASSETS:

Restricted cash		48,618
Restricted investments		59
Capital assets		21,387,964
Less: Accumulated depreciation		(7,271,484)

TOTAL NONCURRENT ASSETS		14,165,157
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TOTAL ASSETS	\$	16,566,454
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LIABILITIES:**CURRENT LIABILITIES:**

Accounts payable	\$	99,710
Accrued expenses		475,542
Accrued interest		90,625
Other current liabilities		2,662
Short-term note payable		1,400,000
Bonds payable within one year		894,786
Deferred revenue		46,688

TOTAL CURRENT LIABILITIES		3,010,013
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NONCURRENT LIABILITIES:

Bonds payable, due in more than one year		10,922,166
Compensated absences		111,757
School bond loan fund payable		5,151,768

TOTAL NONCURRENT LIABILITIES		16,185,691
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TOTAL LIABILITIES		19,195,704
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NET ASSETS:

Invested in capital assets, net of related debt		(2,942,865)
Restricted for debt service		144,681
Reserved		50,217
Designated		2,625
Unreserved		116,092

TOTAL NET ASSETS		(2,629,250)
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TOTAL LIABILITIES AND NET ASSETS	\$	16,566,454
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The accompanying notes to financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

		<u>Program Revenues</u>		<u>Governmental Activities</u>
				<u>Net (Expense)</u>
			<u>Operating</u>	<u>Revenue and</u>
		<u>Charges for</u>	<u>Grants and</u>	<u>Changes in Net</u>
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Services</u>	<u>Contributions</u>	<u>Assets</u>
Government Activities:				
Instruction and instructional support	\$ 7,013,526	\$ 1,200	\$ 806,415	\$ (6,205,911)
Support services	2,982,908	27,436	-	(2,955,472)
School service	556,425	267,857	169,369	(119,199)
Athletics	314,905	40,339	9,571	(264,995)
Community services	69,426	60,390	-	(9,036)
Interest & principal on long-term debt	835,200	-	-	(835,200)
Other debt service	7,779,322	-	-	(7,779,322)
Total Governmental Activities	\$ 19,551,712	\$ 397,222	\$ 985,355	(18,169,135)
General Revenues:				
				1,141,486
				1,535,553
				11,255
				7,717,764
				78,011
				154,948
				793
				7,759,865
				(4,032)
				18,395,643
				226,508
				(2,855,758)
				\$ (2,629,250)

The accompanying notes to financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

	General	Debt Service Fund	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 38,395	\$ -	\$ 56,425	\$ 94,820
Investments	406,718	-	-	406,718
Taxes receivable	92,448	100,903	-	193,351
Accounts receivable	-	-	7,789	7,789
Due from other governmental units	1,512,060	-	19,501	1,531,561
Due from other funds	20,424	-	39,134	59,558
Due from student groups	109,348	-	-	109,348
Inventory	-	-	52,113	52,113
Prepaid expenses	5,597	-	-	5,597
Restricted cash	-	48,618	-	48,618
Restricted investments	-	59	-	59
TOTAL ASSETS	\$ 2,184,990	\$ 149,580	\$ 174,962	\$ 2,509,532
LIABILITIES:				
Accounts payable	\$ 84,138	\$ 4,649	\$ 10,923	\$ 99,710
Accrued expenses	474,696	-	846	475,542
Due to other funds	34,619	250	24,689	59,558
Due to governmental unit	-	-	-	-
Short-term notes payable	1,400,000	-	-	1,400,000
Deferred revenue	40,688	-	6,000	46,688
Other liabilities	-	-	2,662	2,662
TOTAL LIABILITIES	2,034,141	4,899	45,120	2,084,160
FUND BALANCES:				
Restricted	700	144,681	49,517	194,898
Designated	2,625	-	-	2,625
Unreserved	147,524	-	80,325	227,849
TOTAL FUND BALANCES	150,849	144,681	129,842	425,372
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,184,990	\$ 149,580	\$ 174,962	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,116,480
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(17,080,477)
Accrued interest is not included as a liability in governmental funds	(90,625)
Net assets of governmental activities	<u>\$ (2,629,250)</u>

The accompanying notes to the financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	General Fund	Debt Service Fund	Other Non-majo Governmental Funds	Totals
Revenues				
Local sources	\$ 1,241,415	\$ 1,579,459	\$ 517,629	\$ 3,338,503
State sources	8,065,679	-	16,106	8,081,785
Federal sources	448,043	-	153,263	601,306
Total revenues	9,755,137	1,579,459	686,998	12,021,594
Expenditures				
Instruction	6,554,593	-	-	6,554,593
Supporting services	2,909,360	-	-	2,909,360
School service	-	-	556,425	556,425
Athletics	-	-	303,359	303,359
Community services	11,063	-	58,363	69,426
Debt Service	-	1,651,061	-	1,651,061
Total expenditures	9,475,016	1,651,061	918,147	12,044,224
Excess (deficiency) of revenue over expenditures	280,121	(71,602)	(231,149)	(22,630)
Other Financing Sources (Uses)				
Operating transfers in (out)	(238,000)	-	238,000	-
Transfers from other districts	10,703	-	-	10,703
Transfers to other districts	(9,910)	-	-	(9,910)
Proceeds from refinancing of debt	-	7,759,865	-	(7,759,865)
Payments to bond escrow agent	-	(7,644,099)	-	(7,644,099)
Loan payments	(35,000)	-	-	(35,000)
Total other financing sources (uses)	(272,207)	115,766	238,000	81,559
Special Items				
Net Change in Fund Balance	7,914	44,164	6,851	58,929
Fund Balances - Beginning of year	142,935	100,517	122,991	
Fund Balances - End of year	\$ 150,849	\$ 144,681	\$ 129,842	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(541,919)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(208,341)
Revenue reported in the statement of activities that does not provide current financial resources	
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	917,839
Change in net assets of governmental activities	\$ 226,508

The accompanying notes to financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	<u>Fiduciary Fund</u>
ASSETS	
Cash	\$ 340,149
TOTAL ASSETS	<u>\$ 340,149</u>
LIABILITIES	
Due to general fund	\$ 109,348
Due to school food service	37
Due to student groups	74,608
Scholarship funds	<u>156,156</u>
TOTAL LIABILITIES	<u>\$ 340,149</u>

The accompanying notes to the financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Houghton-Portage Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

The Houghton-Portage Township School District (the "District") is governed by the Houghton-Portage Township School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Houghton-Portage Township Schools Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Houghton-Portage Township School students. The foundation is excluded from the reporting entity because the District does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other Non-Major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, Athletic Activities, and Community Service Activities.

Capital Projects Fund - The Capital Projects Fund is used to account for all revenues and expenditures associated with the District's capital structures.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds – Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are not included in the government-wide statements.

The Trust and Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

The Scholarship Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Accrual Method – The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - June 30, 2008****NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2007-08 Foundation		\$	7,204.00
Less Local Support:			
Non-Homestead Tax Value	64,219,843		
Multiplied by mills	18.0		
Total Local Support	1,155,957		
Divided by General Education K-12 membership	1,219.40		
Calculated Local Support			(947.97)
2007-08 Foundation Grant Allowance Per Pupil		\$	<u>6,256.03</u>

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenues earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposits – The District’s cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposits.

Property Taxes – Property taxes levied by the District are collected by the City of Houghton and Portage Township and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	17.7750
Debt service fund - Homestead and non-homestead	8.8900

Receivables and Payables – Activity between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory – General Fund utilizes the purchase method of recording inventories and supplies. Inventory in the District’s School Food Service Fund and Gremingdales (book store) consists of food, a la carte items, supplies, and USDA commodities totaling \$52,113. The District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

Capital Assets – Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Benefits – The liabilities for compensated absences reported in the district-wide statements in the amount of \$111,757 consisted of accrued vacation.

Accrued vacation time is payable upon termination of employment or retirement. Accrued sick leave is not paid to employees upon termination of employment or retirement, thus there is not vested liability for unused sick leave.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fund Equity – In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - June 30, 2008****NOTE C - DEPOSITS AND INVESTMENTS**

At year-end, the District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 94,820	\$ 0	\$ 94,820
Restricted cash	48,618	340,149	388,767
Total cash and cash equivalents	143,438	340,149	483,587
Investments	406,718	0	406,718
Restricted investments	59	0	59
Total investments	406,777	0	406,777
Total deposits and investments	\$ 550,215	\$ 340,149	\$ 890,364

As of June 30, 2008 the District had the following investments:

Investment Type	Fair Value	Rating
MILAF - MIMAX	\$ 406,718	AAA
MILAF-CASH MGMT	59	AAA
TOTAL	<u>\$ 406,777</u>	

Investment and Deposit Risk

Interest Rate Risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements. The District's investments held at year end do not have maturity dates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, \$470,035 of the District's bank balance of \$832,339 was exposed to custodial credit risk because it was uninsured and collateralized.

Custodial Credit Risk - Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investment listed above, there is no custodial credit risk, as these investment are uncategorized as to credit risk.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - June 30, 2008****NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

Concentration of Credit Risk – State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above and are external investment pools.

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal Deposit Insurance Corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

NOTE D - CAPITAL ASSETS

Capital Asset activity of the District's governmental activities was as follows:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08
Land	\$ 1,323,619	\$ 0	\$ 0	\$ 1,323,619
Fixed assets being depreciated:				
Building and additions	17,842,816	0	0	17,842,816
Improvements other than building	167,681	0	0	167,681
Equipment and furniture	845,585	13,924	22,145	837,364
Vehicles other than buses	174,814	0	0	174,814
School buses	724,165	0	0	724,165
Other assets	310,605	6,900		317,505
			0	
Subtotal	20,065,666	\$ 20,824	\$ 22,145	20,064,345
Accumulated depreciation:				
Building and additions	5,066,365	\$ 358,259	\$ 0	5,424,624
Improvements other than building	58,728	11,197	0	69,925
Equipment and furniture	669,749	106,216	18,113	757,852
Vehicles other than buses	157,821	5,679	0	163,500
School buses	553,892	63,144	0	617,036
Other assets	224,331	14,216	0	238,547
Subtotal	6,730,886	\$ 558,711	\$ 18,113	7,271,484
Net capital assets being depreciated	13,334,780			12,792,861
Net capital assets	\$ 14,658,399			\$ 14,116,480

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - June 30, 2008****NOTE D - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to activities of the District as follows:

Governmental activities	
Athletic	\$ 11,546
Instruction	466,716
Operations	9,446
Technology	6,068
Transportation	64,935
Total governmental activities	<u>\$ 558,711</u>

NOTE E - RECEIVABLES

Receivables from governmental units at June 30, 2008 that are expected to be collected within one year consist of the following:

	General Fund	School Service	Total
State Aid	\$ 1,458,948	\$ 0	\$ 1,458,948
Federal	53,112	19,501	72,613
	<u>\$ 1,512,060</u>	<u>\$ 19,501</u>	<u>\$ 1,531,561</u>

NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2008 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 20,424	General	\$ 34,619
School Service	4,265	School Service	2,459
Athletic	0	Athletic	18,355
Community Service	19,679	Community Service	3,875
Capital projects	15,190	Capital projects	0
Debt Retirement	0	Debt Retirement	250
TOTAL	<u>\$ 59,558</u>	TOTAL	<u>\$ 59,558</u>
Fund	Transfer In	Fund	Transfer Out
Athletic	<u>\$ 238,000</u>	General	<u>\$ 238,000</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - June 30, 2008****NOTE G - PAYABLES**

Accounts payable and accrued liabilities as of June 30, 2008, for the District's individual major funds and non-major funds in the aggregate, are as follows:

	General	Debt	Non-Major Funds	Total
Fund Financial Statements:				
Accounts payable	\$ 84,138	\$ 4,649	\$ 10,923	\$ 99,710
Salaries payable	15,433	0	680	16,113
Accrued expenses	459,263	0	166	459,429
	<u>\$ 558,834</u>	<u>\$ 4,649</u>	<u>\$ 11,769</u>	<u>\$ 575,252</u>

NOTE H - SHORT-TERM NOTE PAYABLE

On August 20, 2007, the District obtained a one year operating loan from the Michigan Municipal Bond Authority in the amount of \$1,400,000 with an interest rate of 3.68%. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures. Interest is due semi-annually and principal is due at maturity on August 20, 2008.

NOTE I - LONG TERM DEBTBonds Payable 1991 Issue

On August 29, 1991, the District issued \$435,180 of unlimited tax general obligation bonds to advance refund \$435,077 of School Bond Loan Fund loans.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 4.6% to 7.1% per annum. Interest payments started on May 15, 1992, and are payable semiannually on May 15, and November 15 as indicated. The bonds are to be both term and serial.

Bonds maturing on or after May 15, 2002, shall be subject to redemption prior to maturity at the option of the School Board in such order as the School Board may determine and by lot within any maturity, on any May 15 or November 15 occurring on or after May 15, 2001, at par.

Fiscal Year	May 15 Interest	May 15 Principal	Total
2008-2009	\$ 85,124	\$ 34,876	\$ 120,000
2009-2010	123,921	46,079	170,000
2010-2011	41,097	13,903	55,000
	<u>\$ 250,142</u>	<u>\$ 94,858</u>	<u>\$ 345,000</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - June 30, 2008****NOTE I - LONG TERM DEBT (Continued)**2001 Energy Conservation Improvement Bond

On June 25, 2001, the District issued \$310,000 of Energy Conservation Improvement Bonds. The proceeds of the bonds were used for roof repairs and other improvements that would conserve energy.

The bond issue matures as indicated below with interest not to exceed 5% per annum. Interest payments started on November 1, 2001, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

<u>Fiscal Year</u>	<u>November 1</u> <u>Interest</u>	<u>May 1</u> <u>Interest</u>	<u>May 1</u> <u>Principal</u>	<u>Total</u>
2008-2009	\$ 2,680	\$ 2,680	\$ 35,000	\$ 40,360
2009-2010	1,857	1,857	35,000	38,714
2010-2011	1,000	1,000	40,000	42,000
	<u>\$ 5,537</u>	<u>\$ 5,537</u>	<u>\$ 110,000</u>	<u>\$ 121,074</u>

2002 Advance Refunding

On January 21, 2002, the District issued \$6,715,000 of general obligation unlimited tax bonds to advance refund \$6,485,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay certain costs of issuance relating to the refunding of the 1992 Refunding Bonds dated January 1, 1993.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.85% to 4.50% per annum. Interest payments started on November 1, 2002, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2013 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2012, at par and accrued interest to the date fixed for redemption.

<u>Fiscal Year</u>	<u>November 1</u> <u>Interest</u>	<u>May 1</u> <u>Interest</u>	<u>May 1</u> <u>Principal</u>	<u>Total</u>
2008-2009	\$ 85,885	\$ 85,885	\$ 515,000	\$ 686,770
2009-2010	75,714	75,714	515,000	666,428
2010-2011	65,285	65,285	640,000	770,570
2011-2012	52,005	52,005	740,000	844,010
2012-2013	36,280	36,280	790,000	862,560
2013-2014	18,900	18,900	840,000	877,800
	<u>\$ 334,069</u>	<u>\$ 334,069</u>	<u>\$ 4,040,000</u>	<u>\$ 4,708,138</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008
NOTE I - LONG TERM DEBT (Continued)

2008 Advance Refunding

On February 14, 2008, the School District issued general obligation bonds of \$7,600,000. Proceeds from this bond issue were used to advance refund a portion of the 1998 refunding bonds. The refunded bonds mature as scheduled on May 1, 2008 through 2026. The balance of the defeased debt outstanding at June 30, 2008 was \$7,790,000. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide statement of net assets. The refunding was undertaken to reduce annual debt service payments by \$789,520 and to reduce interest at an estimated value of \$126,573 for a total estimated savings of \$916,093. The net present value savings is \$570,816.

A portion of the proceeds were used to pay certain costs of issuance relating to the refunding of the prior bonds and to establish an "Escrow Fund". The Escrow Fund was held by an escrow agent used to pay when due the principal and interest on the prior bonds. Interest on the bonds shall be payable semiannually each May 1 and November 1 to maturity or early redemption, commencing May 1, 2008.

Sources and uses of funds to service the old debt and complete the refunding were as follows.

<u>Sources of Funds:</u>	
Par amount of bonds	\$ 7,600,000
Original Issue Premium	178,799
Original Issue Discount	(18,934)
NET SOURCES OF FUNDS	<u>\$ 7,759,865</u>

<u>Uses of Funds:</u>	
Escrow Fund	\$ 7,644,099
Underwriter's Discount	29,488
Issuance Costs	86,278
TOTAL FUNDS USED	<u>\$ 7,759,865</u>

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2019, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2018, at par plus accrued interest to the date fixed for redemption.

The Bonds due May 1, 2019 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

During the current year, there was a \$80,000 principal and \$65,359 interest payment made.

<u>Fiscal Year</u>	<u>November 1</u> <u>Interest</u>	<u>May 1</u> <u>Interest</u>	<u>May 1</u> <u>Principal</u>	<u>Total</u>
2008-2009	\$ 151,388	\$ 151,388	\$ 305,000	\$ 607,776
2009-2010	146,050	146,050	305,000	597,100
2010-2011	140,713	140,713	330,000	611,426
2011-2012	134,938	134,938	320,000	589,876
2012-2013	129,338	129,338	315,000	573,676
2013-2014	123,431	123,431	315,000	561,862
2014-2015	117,525	117,525	485,000	720,050
2015-2016	107,825	107,825	475,000	690,650
2016-2021	376,075	376,075	2,435,000	3,187,150
2021-2026	132,400	132,400	2,235,000	2,499,800
	<u>\$ 1,559,683</u>	<u>\$ 1,559,683</u>	<u>\$ 7,520,000</u>	<u>\$ 10,639,366</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE I - LONG TERM DEBT (Continued)

Durant Bond

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The District participated in the bonding option and on November 24, 1998 issued \$88,227 of school improvement bonds for the purpose of purchasing various supplies and equipment for technological improvements to the District.

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bond is not subject to redemption prior to maturity and the District will not issue any other bonds or obligations for the purpose of refunding this bond. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bond is the obligation of the District, not the State.

As part of the State of Michigan Executive Budget Recommendation for fiscal year 2007, the bonds were "refunded." The debt service payment schedules for the districts that chose to bond have changed. However, the refunding did not change the total payments for any of the borrowers.

<u>Fiscal Year</u>	<u>May 15 Interest</u>	<u>May 15 Principal</u>	<u>Total</u>
2008-2009	\$ 1,286	\$ 4,910	\$ 6,196
2009-2010	1,052	5,144	6,196
2010-2011	807	5,389	6,196
2011-2012	550	5,645	6,195
2012-2013	10,620	31,007	41,627
	<u>\$ 14,315</u>	<u>\$ 52,095</u>	<u>\$ 66,410</u>

School Bond Loan Fund

The District borrowed from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can lend the District funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2008, the balance due to the School Bond Loan Fund was \$5,131,804 including accrued interest of \$1,535,804.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the District's bond issues. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the School Bond Loan Fund is established by the State at the time of borrowing and remains fixed for that specific borrowing until repayment. The rate at June 30, 2008 was 4.25%.

School Loan Revolving Fund

During the year ended June 30, 2008, the District borrowed from the Michigan School Loan Revolving Fund for the purpose of making principal and interest payments on the above bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can lend the District funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2008, the balance due to the School Loan Revolving Fund was \$19,965 including accrued interest of \$3,305. The rate at June 30, 2008 was 4.38%.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008
NOTE I - LONG TERM DEBT (Continued)

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2008:

	Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008	Current Portion
1991 SBLF Refunding	\$ 132,557	\$ 0	\$ 37,700	\$ 94,857	\$ 34,876
1998 Refunding	7,790,000	0	7,790,000	0	0
2008 Refunding	0	7,600,000	80,000	7,520,000	305,000
2002 Refunding	4,525,000	0	485,000	4,040,000	515,000
Energy Bond	145,000	0	35,000	110,000	35,000
Durant Bond	52,095	0	0	52,095	4,910
School Bond Loan	3,702,800	0	90,140	3,612,660	0
	<u>16,347,452</u>	<u>7,600,000</u>	<u>8,517,840</u>	<u>15,429,612</u>	<u>\$ 894,786</u>
SBLF Interest	1,320,583	218,525	0	1,539,108	
Accrued Interest	106,949	0	16,324	90,625	
Accrued Benefits	105,617	6,140	0	111,757	
TOTAL	<u>\$ 17,880,601</u>	<u>\$ 7,824,665</u>	<u>\$ 8,534,164</u>	<u>\$ 17,171,102</u>	

As of June 30, 2008, the aggregate maturities of long-term debt for the next ten years and thereafter are as follows:

Fiscal Year	Principal	Interest	Total
2008-2009	\$ 894,786	\$ 566,316	\$ 1,461,102
2009-2010	906,223	572,215	1,478,438
2010-2011	1,029,292	449,900	1,479,192
2011-2012	1,065,645	374,436	1,440,081
2012-2013	1,136,007	341,856	1,477,863
2013-2014	1,155,000	284,662	1,439,662
2014-2015	485,000	235,050	720,050
2015-2016	475,000	215,650	690,650
2016-2021	2,435,000	752,150	3,187,150
2021-2026	5,847,659	264,800	6,112,459
	<u>\$ 15,429,612</u>	<u>\$ 4,057,035</u>	<u>\$ 19,486,647</u>

NOTE J - DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, PO Box 30171, Lansing, Michigan 48909, by calling (517) 322-5103 or online at the State of Michigan's web-site: <http://www.michigan.gov/orsschools>.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE J - DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The District was required by the state statute to contribute 17.74% of covered compensation through September 30, 2007 and 16.72% of covered compensation to the Plan for the remainder of the year. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The total amount contributed to MPSERS for the years ended June 30, 2008, 2007, and 2006, were \$871,222, \$953,853, and \$846,824 respectively, equal to the required contributions for each year.

Other Post Employee Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

- Retirees not yet eligible for Medicare coverage pay an annual amount equal to Medicare Part B premiums.
- Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

The District is not responsible for the payment of retirement benefits or post-employment benefits which is the responsibility of the State of Michigan.

NOTE K - FUND BALANCES

Designated - A Designated Fund Balance has been established to account for those resources currently available for use, but expendable for specified purposes. The School Board has designated \$2,625 for the purpose of funding a catastrophic illness program for all employees.

Reserved - The reserved fund balance, in the General Fund, represents contributions toward the purchase of a piano for the Alumni Auditorium in the amount of \$700. The School Food Service Fund, represents inventory in the amount of \$49,517.

Restricted - The Debt Service Fund balance is restricted for retirement of debt.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE L - ECONOMIC DEPENDENCY

The District received approximately 79% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

NOTE M - CONTINGENT LIABILITIES

Risk Pool

Houghton-Portage Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Houghton-Portage Township School District joined together with other school districts currently operating a common risk management and insurance program. Houghton-Portage Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Houghton-Portage Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2008, which can be obtained through the District.

NOTE N - SUBSEQUENT EVENTS

Michigan Municipal Bond Authority: On August 20, 2008, the District entered into a note with the Michigan Municipal Bond Authority School Loan Fund. The principal amount and the interest rate on the Note shall not exceed \$1,400,000 and 1.70% per annum, respectively. The note matures on August 20, 2009. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

2008 School Building and Site Bonds: In August 2008, there was a new bond issue approved for the purpose of erecting, furnishing, and equipping an addition to the middle and high school, remodeling, furnishing and refurnishing, and equipping and re-equipping existing school facilities, acquiring and installing educational technology in school buildings, and developing and improving athletic facilities, fields, and sites. The amount of the bond was \$12,295,000.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES:				
Local sources	\$ 1,102,305	\$ 1,232,986	\$ 1,241,415	\$ 8,429
State sources	8,207,936	8,067,630	8,065,679	(1,951)
Federal sources	476,922	446,045	448,043	1,998
TOTAL REVENUE	9,787,163	9,746,661	9,755,137	8,476
EXPENDITURES:				
Instruction	6,590,169	6,613,774	6,554,593	59,181
Supporting services	3,005,913	2,962,973	2,909,360	53,613
Community services	8,402	10,402	11,063	(661)
TOTAL EXPENDITURES	9,604,484	9,587,149	9,475,016	112,133
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	182,679	159,512	280,121	120,609
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	80,000	80,000	10,703	(69,297)
Other financing sources	-	-	-	-
Operating transfers out	(238,000)	(238,000)	(238,000)	-
Other outgoing transfers	(22,500)	(22,500)	(9,910)	12,590
Principle and interest payments	(30,000)	(35,000)	(35,000)	-
Total other financing sources (uses)	(210,500)	(215,500)	(272,207)	(56,707)
NET CHANGE IN FUND BALANCE	<u>\$ (27,821)</u>	<u>\$ (55,988)</u>	7,914	<u>\$ 63,902</u>
FUND BALANCE - BEGINNING OF YEAR			142,935	
FUND BALANCE - END OF YEAR			<u>\$ 150,849</u>	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	BUDGET	ACTUAL	VARIANCE	2007
REVENUES:				
Local sources:				
Taxes	\$ 1,141,486	\$ 1,141,486	\$ -	\$ 1,139,787
Penalties and interest	11,000	13,723	2,723	11,505
Investment revenue	47,000	38,823	(8,177)	47,445
Tuition	-	1,200	1,200	12,960
Rentals	12,000	12,246	246	13,916
Contributions	15,000	10,457	(4,543)	19,484
Miscellaneous	6,500	23,480	16,980	10,640
Total local sources	1,232,986	1,241,415	8,429	1,255,737
State sources:				
Unrestricted grants:				
State aid	7,719,739	7,717,764	(1,975)	7,749,629
Restricted grants:				
Grants	52,254	52,254	-	17,304
At-risk	134,964	134,988	24	132,053
Special education	160,673	160,673	-	154,671
Total restricted grants	347,891	347,915	24	304,028
Total state sources	8,067,630	8,065,679	(1,951)	8,053,657
Federal sources:				
Title I	174,961	177,250	2,289	217,778
Title V	824	824	-	922
Title II	45,260	44,969	(291)	69,758
Even start	225,000	225,000	-	225,000
Homeland security grant	-	-	-	1,314
Total federal sources	446,045	448,043	1,998	514,772
TOTAL REVENUES	9,746,661	9,755,137	8,476	9,824,166
EXPENDITURES:				
Instruction:				
Basic program:				
Elementary School	2,260,170	2,210,262	49,908	2,223,514
Middle School	1,095,024	1,091,685	3,339	1,175,545
High School	2,218,633	2,222,519	(3,886)	2,233,409
Total basic program	5,573,827	5,524,466	49,361	5,632,468
Added needs:				
Special education - Elementary School	129,610	128,855	755	128,111
Special education - Middle School	119,840	116,289	3,551	116,298
Special education - High School	256,690	256,272	418	258,592
Compensatory education	168,630	171,568	(2,938)	215,777
At-risk	74,177	66,143	8,034	87,677
Vocational education	66,000	66,000	-	47,850
Technical skills training	225,000	225,000	-	225,000
Total added needs	1,039,947	1,030,127	9,820	1,079,305
Total instruction	6,613,774	6,554,593	59,181	6,711,773

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2008

Supporting services:	BUDGET	ACTUAL	VARIANCE	2007
Pupil:				
Guidance	209,390	212,691	(3,301)	295,957
Health	1,106	640	466	817
Attendance	2,300	1,721	579	2,564
Social Work	10,998	10,998	-	11,034
Total pupil	223,794	226,050	(2,256)	310,372
Instructional staff:				
Improvement of instruction	18,873	19,694	(821)	18,714
Library	203,538	199,752	3,786	205,728
Total instructional staff	222,411	219,446	2,965	224,442
General administration:				
Board of education	126,523	127,976	(1,453)	143,282
Executive administration	207,177	201,043	6,134	199,375
Total general administration	333,700	329,019	4,681	342,657
School administration:				
Office of principal - Elementary School	200,806	202,068	(1,262)	206,349
Office of principal - Middle School	157,978	152,922	5,056	164,076
Office of principal - High School	243,027	222,619	20,408	312,265
Total school administration	601,811	577,609	24,202	682,690
Business-fiscal services	233,414	232,904	510	220,578
Operation & maintenance	885,901	870,440	15,461	913,551
Pupil transportation	374,112	364,061	10,051	410,561
Other technical support	87,830	89,831	(2,001)	105,902
Total supporting services	2,962,973	2,909,360	53,613	3,210,753
Community services	10,402	11,063	(661)	12,731
TOTAL EXPENDITURES	9,587,149	9,475,016	112,133	9,935,257
EXCESS OF REVENUES OVER EXPENDITURES	159,512	280,121	120,609	(111,091)
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	80,000	10,703	(69,297)	82,796
Other financing sources	-	-	-	1,320
Operating transfer out	(238,000)	(238,000)	-	(238,000)
Other outgoing transfers	(22,500)	(9,910)	12,590	(19,119)
Loan payments	(35,000)	(35,000)	-	(110,000)
TOTAL OTHER FINANCING SOURCES (USES)	(215,500)	(272,207)	(56,707)	(283,003)

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
SPECIAL ITEMS:				
Sale of fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>885</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (55,988)</u>	<u>7,914</u>	<u>\$ 63,902</u>	<u>(393,209)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>142,935</u>		<u>536,144</u>
FUND BALANCE, END OF YEAR		<u>\$ 150,849</u>		<u>\$ 142,935</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
DEBT SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	BUDGET	ACTUAL	VARIANCE	2007
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 1,535,552	\$ 1,535,553	\$ 1	\$ 1,449,797
Other taxes	13,150	16,766	3,616	18,771
Penalties & interest on delinquent taxes	5,000	6,431	1,431	7,050
Total taxes	1,553,702	1,558,750	5,048	1,475,618
Other:				
Miscellaneous	13,500	20,709	7,209	11,611
TOTAL REVENUES	1,567,202	1,579,459	12,257	1,487,229
EXPENDITURES:				
Interest on bonds	543,072	542,999	73	652,346
Redemption of bond principle	972,839	972,839	-	790,253
Tax collection fees	6,000	5,849	151	5,516
Other expense	130,825	129,374	1,451	3,751
TOTAL EXPENDITURES	1,652,736	1,651,061	1,675	1,451,866
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(85,534)	(71,602)	13,932	35,363
OTHER FINANCING SOURCES (USES)				
Proceeds of refunded debt	7,759,865	7,759,865	-	-
Payments to bond escrow agent	(7,644,099)	(7,644,099)	-	-
School Bond Loan Fund proceeds	-	-	-	15,800
TOTAL OTHER FINANCING SOURCES (USES)	115,766	115,766	-	15,800
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 30,232	44,164	\$ 13,932	51,163
FUND BALANCE, BEGINNING OF YEAR		100,517		49,354
FUND BALANCE, END OF YEAR		\$ 144,681		\$ 100,517

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2008

					Totals	
	School	Athletic	Capital	Community	Memorandum Only	
ASSETS AND OTHER DEBITS	Service		Project	Services	2008	2007
Cash	\$ 20,261	\$ 16,922	\$ 1,240	\$ 18,002	\$ 56,425	\$ 64,789
Receivables	2,623	4,976	-	190	7,789	21,700
Due from other funds	4,265	-	15,190	19,679	39,134	9,817
Due from governmental units	19,501	-	-	-	19,501	18,334
Inventory	52,113	-	-	-	52,113	25,955
Total local sources	\$ 98,763	\$ 21,898	\$ 16,430	\$ 37,871	\$ 174,962	\$ 140,595
LIABILITIES						
Accounts payable	\$ 9,207	\$ 1,307	\$ -	\$ 409	\$ 10,923	\$ 10,731
Accrued expenses	846	-	-	-	846	1,231
Due to other funds	2,459	18,355	-	3,875	24,689	4,160
Deferred revenues	-	-	-	6,000	6,000	-
Other liabilities	2,662	-	-	-	2,662	2,502
TOTAL LIABILITIES	15,174	19,662	-	10,284	45,120	18,624
FUND EQUITY:						
Fund balance - unreserved	34,072	2,236	16,430	27,587	80,325	96,016
Fund balance - reserved	49,517	-	-	-	49,517	25,955
TOTAL FUND EQUITY	83,589	2,236	16,430	27,587	129,842	121,971
TOTAL LIABILITIES AND FUND EQUITY	\$ 98,763	\$ 21,898	\$ 16,430	\$ 37,871	\$ 174,962	\$ 140,595

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
June 30, 2008

					Totals	
	School	Athletic	Capital	Community	Memorandum Only	
	Service		Project	Services	2008	2007
REVENUES						
Local sources:						
School service	\$ 390,950	\$ -	\$ -	\$ -	\$ 390,950	\$ 404,893
Athletic	-	50,397	-	-	50,397	75,593
Community service	-	-	-	60,872	60,872	32,927
Capital projects	-	-	15,410	-	15,410	15,148
Total local sources	390,950	50,397	15,410	60,872	517,629	528,561
State sources	16,106	-	-	-	16,106	18,034
Federal sources	153,263	-	-	-	153,263	149,602
TOTAL REVENUES	560,319	50,397	15,410	60,872	686,998	696,197
EXPENSES						
Salaries and wages	139,302	153,847	-	36,757	329,906	304,474
Employee benefits	87,663	40,290	-	8,989	136,942	132,267
Supplies, materials, and other	329,460	109,222	-	12,617	451,299	471,686
TOTAL EXPENDITURES	556,425	303,359	-	58,363	918,147	908,427
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,894	(252,962)	15,410	2,509	(231,149)	(212,230)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	238,000	-	-	238,000	238,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	3,894	(14,962)	15,410	2,509	6,851	25,770
FUND BALANCE, BEGINNING OF YEAR	79,695	17,198	1,020	25,078	122,991	97,221
FUND BALANCE, END OF YEAR	\$ 83,589	\$ 2,236	\$ 16,430	\$ 27,587	\$ 129,842	\$ 122,991

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
SCHOOL SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	BUDGET	ACTUAL	VARIANCE	2007
REVENUES:				
Local sources:				
Adult lunches	\$ 8,156	\$ 8,418	\$ 262	\$ 7,779
A-La-Carte	80,000	79,995	(5)	99,414
Special milk	2,700	2,457	(243)	2,693
Breakfast	12,500	13,138	638	12,784
Student lunches	3,400	4,009	609	3,445
School store revenue	10,000	2,368	(7,632)	4,282
Vending machines	157,000	157,472	472	159,430
Earnings on investments	1,000	1,079	79	943
Miscellaneous	116,171	122,014	5,843	114,123
Total local sources	390,927	390,950	23	404,893
State sources	16,000	16,106	106	18,034
Federal sources:				
School lunch program	126,500	126,493	(7)	122,372
USDA entitlements	24,447	24,939	492	27,052
USDA bonus entitlements	2,162	1,831	(331)	178
Total federal sources	153,109	153,263	154	149,602
TOTAL REVENUES	560,036	560,319	283	572,529
EXPENDITURES:				
Salaries and wages	139,500	139,302	198	132,278
Employee benefits	87,600	87,663	(63)	84,544
Supplies, materials, and other	359,900	329,460	30,440	308,945
TOTAL EXPENDITURES	587,000	556,425	30,575	525,767
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (26,964)	3,894	\$ 30,858	46,762
FUND BALANCE, BEGINNING OF YEAR		79,695		32,933
FUND BALANCE, END OF YEAR		\$ 83,589		\$ 79,695

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
ATHLETIC FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	BUDGET	ACTUAL	VARIANCE	2007
REVENUES:				
Local sources:				
Athletics	\$ 2,317	\$ 1,088	\$ (1,229)	\$ 1,123
Football	10,950	5,187	(5,763)	10,950
Girls basketball	18,487	6,560	(11,927)	18,487
Boys basketball	12,347	4,778	(7,569)	12,347
Hockey	17,447	13,705	(3,742)	17,447
Swim team	3,328	375	(2,953)	3,328
Ski Team	-	5,564	5,564	3,587
Track	2,576	6,536	3,960	2,576
Golf	600	457	(143)	600
Cross Country	3,982	350	(3,632)	3,982
Volleyball	1,166	4,977	3,811	1,166
Cheerleaders	-	820	820	-
Total local sources	73,200	50,397	(22,803)	75,593
EXPENDITURES:				
Athletics	57,050	55,584	1,466	53,799
Cross country	6,687	10,068	(3,381)	8,312
Football	45,661	40,252	5,409	45,661
Girls basketball	48,721	37,320	11,401	48,720
Boys basketball	36,354	31,788	4,566	36,354
Hockey	38,140	37,181	959	38,140
Ski team	14,346	16,805	(2,459)	14,346
Swim team	10,390	8,213	2,177	10,390
Track	28,971	33,831	(4,860)	29,886
Golf	3,205	5,388	(2,183)	4,312
Cheerleaders	1,776	2,443	(667)	1,776
Volleyball	20,843	24,366	(3,523)	20,846
Pop fund	-	120	(120)	76
TOTAL EXPENDITURES	312,144	303,359	8,785	312,618
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(238,944)	(252,962)	(14,018)	(237,025)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	238,000	238,000	-	238,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ (944)</u>	<u>(14,962)</u>	<u>\$ (14,018)</u>	<u>975</u>
FUND BALANCE, BEGINNING OF YEAR		<u>17,198</u>		<u>16,223</u>
FUND BALANCE, END OF YEAR		<u>\$ 2,236</u>		<u>\$ 17,198</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
CAPITAL PROJECTS
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
REVENUES:				
Local sources:				
Earnings on investments	\$ -	\$ 220	\$ 220	720
Rentals	14,000	15,190	1,190	14,428
TOTAL REVENUES	<u>14,000</u>	<u>15,410</u>	<u>1,410</u>	<u>15,148</u>
EXPENDITURES:				
Repairs	-	-	-	40,132
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,000	15,410	1,410	(24,984)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ 14,000</u>	15,410	<u>\$ 1,410</u>	(24,984)
FUND BALANCE, BEGINNING OF YEAR		<u>1,020</u>		<u>26,004</u>
FUND BALANCE, END OF YEAR		<u>\$ 16,430</u>		<u>\$ 1,020</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
COMMUNITY SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
REVENUES:				
Local sources:				
Kindergarten child care	\$ 55,000	\$ 52,875	\$ (2,125)	\$ 28,648
Swim lessons	-	-	-	1,095
GED	7,440	7,515	75	2,585
Golf	-	482	482	599
	<u>62,440</u>	<u>60,872</u>	<u>(1,568)</u>	<u>32,927</u>
Total local sources				
EXPENDITURES:				
Kindergarten child care	55,000	51,453	3,547	23,599
Swim lessons	-	-	-	1,966
GED	7,440	6,910	530	4,345
	<u>62,440</u>	<u>58,363</u>	<u>4,077</u>	<u>29,910</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	2,509	\$ 2,509	3,017
FUND BALANCE, BEGINNING OF YEAR		<u>25,078</u>		<u>22,061</u>
FUND BALANCE, END OF YEAR		<u>\$ 27,587</u>		<u>\$ 25,078</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2008

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
ASSETS:				
Cash	\$ 112,859	\$ 123,241	\$ 54,607	\$ 181,493
LIABILITIES:				
Due to general fund	\$ 29,167	\$ 134,138	\$ 56,457	\$ 106,848
Due to school food service	37	0	0	37
Due to organization and class funds	83,655	261,427	270,474	74,608
TOTAL LIABILITIES	\$ 112,859	\$ 395,565	\$ 326,931	\$ 181,493

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
SCHOLARSHIP FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2008

	Balance <u>July 1, 2007</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance <u>June 30, 2008</u>
ASSETS:				
Cash	\$ 153,723	\$ 6,933	\$ 2,000	\$ 158,656
	<u>153,723</u>	<u>6,933</u>	<u>2,000</u>	<u>158,656</u>
LIABILITIES:				
Due to general fund	\$ 2,000	\$ 2,500	\$ 2,000	\$ 2,500
Scholarship funds	151,723	6,933	2,500	156,156
	<u>151,723</u>	<u>6,933</u>	<u>2,500</u>	<u>156,156</u>
TOTAL LIABILITIES	\$ 153,723	\$ 9,433	\$ 4,500	\$ 158,656
	<u>153,723</u>	<u>9,433</u>	<u>4,500</u>	<u>158,656</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
FEDERAL AWARDS PROGRAMS
JUNE 30, 2008**



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Houghton-Portage Township School District
Houghton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of and for the year then ended June 30, 2008, which collectively comprise the Houghton-Portage School District's basic financial statements and have issued our report thereon dated November 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Houghton-Portage Township School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Houghton-Portage Township School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Houghton-Portage Township School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Houghton-Portage Township School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Houghton-Portage Township School District's financial statements is more than inconsequential and will not be prevented or detected by the Houghton-Portage Township School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 through 2008-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Houghton-Portage Township School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Houghton-Portage Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2008-1 through 2008-3.

We noted certain other matters that we reported to management of Houghton-Portage Township School District in a separate letter dated November 4, 2008.

This report is intended solely for the information and use of the District's board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 4, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Houghton-Portage Township School District
Houghton, Michigan

Compliance

We have audited the compliance of Houghton-Portage Township School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Houghton-Portage Township School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Houghton-Portage Township School District's management. Our responsibility is to express an opinion on Houghton-Portage Township School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houghton-Portage Township School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Houghton-Portage Township School District's compliance with those requirements.

In our opinion, Houghton-Portage Township School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs a item 2008-1.

Internal Control Over Compliance

The management of Houghton-Portage Township School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Houghton-Portage Township School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Houghton-Portage Township School District's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance

requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Houghton-Portage Township School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of and for the year then ended June 30, 2008, and have issued our report thereon dated November 4, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Houghton-Portage Township School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the District's board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 4, 2008

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Grant Award Amount	Accrued (Deferred) Revenue 07/01/07	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 06/30/08
U.S. Department of Education:						
Passed Through MDE						
Title I Part A Grant 081530-0708	84.010	\$ 204,050	\$ 0	\$ 204,050	\$ 177,250	\$ (26,800)
Even Start 080390 B0810C	84.213	202,335	0	189,221	225,000	35,779
Title V Part A Grant 080250-0708	84.298	824	0	824	824	0
Title II Part D Grant 084290-0708	84.318	1,918	0	1,918	1,918	0
Title II Part A Grant 080520-0708	84.367	43,342	0	43,342	43,051	(291)
Total U.S. Department of Education		<u>452,469</u>	<u>0</u>	<u>439,355</u>	<u>448,043</u>	<u>8,688</u>
U.S. Department of Agriculture:						
Passed Through MDE						
National School Lunch						
Section 4 - All Lunches 071950	10.555	29,568	3,808	7,176	3,368	0
Section 4 - All Lunches 081950	10.555	25,365	0	25,024	25,365	341
Section 11 - Free & Reduced 071960	10.555	87,646	11,854	22,067	10,213	0
Section 11 - Free & Reduced 081960	10.555	74,534	0	72,749	74,534	1,605
Snacks 071980	10.555	2,352	465	1,104	639	0
Snacks 081980	10.555		0	1,757	1,996	239
		<u>219,465</u>	<u>16,127</u>	<u>129,877</u>	<u>116,115</u>	<u>2,185</u>
Breakfast 071970	10.553	11,382	2,170	3,546	1,376	0
Breakfast 081970	10.553	9,002	0	8,596	9,002	406
		<u>20,384</u>	<u>2,170</u>	<u>12,142</u>	<u>10,378</u>	<u>406</u>
Food Distribution - Entitlement	10.550	24,939	0	24,939	24,939	0
Food Distribution - Bonus	10.550	1,831	0	1,831	1,831	0
		<u>26,770</u>	<u>0</u>	<u>26,770</u>	<u>26,770</u>	<u>0</u>
Total U.S. Department of Agriculture		<u>266,619</u>	<u>18,297</u>	<u>168,789</u>	<u>153,263</u>	<u>2,591</u>
TOTALS		<u>\$ 719,088</u>	<u>\$ 18,297</u>	<u>\$ 608,144</u>	<u>\$ 601,306</u>	<u>\$ 11,279</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
SCHEDULE OF FEDERAL ASSISTANCE
PROVIDED TO SUB-RECIPIENTS
JUNE 30, 2008

Sub-recipients Program Title/ Project Number	CFDA Number	Grant Award	Amount Transferred/ Payable
Even Start	84.213		
Baraga-Houghton-Keweenaw Child Development		\$ 225,000	\$ 225,000

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - June 30, 2008

NOTE A - OVERSIGHT AGENCY

The U. S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal financial assistance.

NOTE B - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C - FINAL COST REPORT - FORM DS4044

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year grants were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with the prior year audited figures.

NOTE D - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 54 of these financial statements is \$601,306.

The amounts reported as current payments on the MDE grant reports prepared by the State of Michigan, reconcile to the Schedule of Expenditures of Federal Awards as follows:

Total current payments per MDE grant reports	\$ 581,554
Less	
Title I Part A - Deferred Revenue	(26,800)
Title II Part A - Deferred Revenue	(291)
Accounts Receivable School Lunch Fund - Prior Year	(18,297)
Plus	
Even Start Accounts Receivable	35,779
School Lunch Accounts Receivable - current year	2,591
Food Commodities	26,770
	<hr/>
Schedule of Expenditures of Federal Awards	<u><u>\$ 601,306</u></u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133? No

Identification of major programs:	<u>CFDA Number</u> 84.010	<u>Name of Federal Program or Cluster</u> Title I Part A
-----------------------------------	------------------------------	---

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition, Cause and Effect: As is the case with many entities, the Houghton-Portage Township School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls. As a result of this condition, the Houghton-Portage Township School District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Houghton-Portage Township School District has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors. The finance department has the knowledge to understand GAAP financial statements and will carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 - Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting and safeguarding of the District's assets.

Condition, Cause, Effect: During the course of the audit, we noted bank reconciliations were not being reviewed by someone other than the preparer. Due to this lack of segregation of duties, the District has an increased risk that fraud or abuse is not prevented or could be detected in a timely manner. Ideally, no single individual should prepare and review the bank reconciliations. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

View of Responsible Officials: The District understands it needs to be aware of this situation and will implement review processes of bank reconciliations. The review procedures will be formally documented and reviewed by the auditor.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2008

(Continued)

2008-3 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: The District finds it advantageous to apply the auditor's capital asset reports for GASB 34 reporting. Based on the technical depreciation software that is utilized by the auditor, the District has decided to review the capital asset reports on an annual basis and retain them.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-1 - Reporting Federal Revenues and Expenditures

Criteria: The Federal Title Program operates on a reimbursement basis, whereby eligible expenditures are reimbursed by the grantor agency after they are incurred by the District. In this type of situation, revenue from the federal program should be equal to expenditures of the federal program.

Condition, Cause and Effect: During the fiscal year ended June 30, 2008, the District's general ledger reported revenue from this Federal Program in excess of program expenditures by \$27,091. Because this program operates on a reimbursement basis, the "excess" revenue was accounted for as deferred revenue at year-end and reported as a liability for the District. The Business Manager's oversight in reviewing federal expenses accounts for this issue.

View of Responsible Officials: The District will carefully review Title expenses before requesting federal funds.



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November 4, 2008

To the Board of Education
Houghton-Portage Township School District
Houghton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Houghton-Portage Township School District for the year ended June 30, 2008, and have issued our report thereon dated November 4, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal controls of the Houghton-Portage Township School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Houghton-Portage Township School District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Houghton-Portage Township School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Houghton-Portage Township School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 4, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Houghton-Portage Township School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Houghton-Portage Township School Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to the Houghton-Portage Township School District. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

In planning and performing our audit of the financial statements of the Houghton-Portage Township School District, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

FINANCIAL STATEMENT FINDINGS

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition, Cause and Effect: As is the case with many entities, the Houghton-Portage Township School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls. As a result of this condition, the Houghton-Portage Township School District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Houghton-Portage Township School District has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors. The finance department has the knowledge, expertise and education relative to preparing GAAP financial statements and will carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 - Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting and safeguarding of the District's assets.

Condition, Cause, Effect: During the course of the audit, we noted bank reconciliations were not being reviewed by someone other than the preparer. Due to this lack of segregation of duties, the District has an increased risk that fraud or abuse is not prevented or could be detected in a timely manner. Ideally, no single individual should prepare and review the bank reconciliations. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

View of Responsible Officials: The District understands it needs to be aware of this situation and will implement review processes of bank reconciliations. The review procedures will be formally documented and reviewed by the auditor.

2008-3 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: The District finds it advantageous to apply the auditor's capital asset reports for GASB 34 reporting. Based on the technical depreciation software that is utilized by the auditor, the District has decided to review the capital asset reports on an annual basis and retain them.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-1 - Reporting Federal Revenue and Expenditures

Criteria: The Federal Title Program operates on a reimbursement basis, whereby eligible expenditures are reimbursed by the grantor agency after they are incurred by the District. In this type of situation, revenue from the federal program should be equal to expenditures of the federal program.

Condition, Cause and Effect: During the fiscal year ended June 30, 2008, the District's general ledger reported revenue from this Federal Program in excess of program expenditures by \$27,091. Because this program operates on a reimbursement basis, the "excess" revenue was accounted for as deferred revenue at year-end and reported as a liability for the District. The Business Manager's oversight in reviewing federal expenses accounts for this issue.

View of Responsible Officials: The District will carefully review Title expenses before requesting federal funds.